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California Postsecondary Education Commission

Developing a Statewide Higher Education Affordability Policy

This report addresses the “affordability crisis” in California higher education today. It served as a background piece for panel discussions that were held at the Commission’s June 27, 2006, meeting.

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The Commission advises the Governor and Legislature on higher education policy and fiscal issues. Its primary focus is to ensure that the state’s educational resources are used effectively to provide Californians with postsecondary education opportunities. More information about the Commission is available at www.cpec.ca.gov.

Background

The Postsecondary Education Commission is currently examining the question of affordability at California’s colleges and universities. It is a pivotal issue that is being debated both within and outside the higher education community. Clearly, the ability of students and families to finance a higher education is becoming a critical issue.

A recent public opinion poll showed growing concern about college costs and accountability eroding an otherwise favorable view of higher education. Nearly half of registered voters questioned whether higher education provides value in proportion to its costs (Winston and Associates 2006).

A linkage is being made by the public between price, quality, and accountability, resulting in a general perception that higher education is less affordable and less responsive to the aspirations of individuals and the needs of today’s workforce. Without question, political and policy discussions emanating from a perceived “affordability crisis” cannot, and should not, be viewed in isolation from issues of quality and value.

In a recent paper prepared for the *National Commission on the Future of Higher Education*, the Public Policy Institute for Higher Education identified four major policy concerns surrounding higher education:

1. **Student Affordability** -- The ability of students and families to have access to and success in pursuing a postsecondary education;
2. **Institutional Cost Control** -- Productivity and the need to focus on public as well as institutional priorities;

3. **State and National Capacity** -- The ability to remain economically competitive through a sufficient supply of workers and investments in research and technology; and
4. **Public Credibility** -- Support for the enterprise through accountability for the use of public and private resources to produce a high quality product.

These concerns constitute a hierarchy of interrelated issues that begin with access and affordability and culminate with the public's skepticism of higher education as an investment worth making -- whatever the cost.

The Commission's Principles

At its March 2006 meeting, the Commission adopted a set of principles (see Appendix A) that should serve to guide the development of an affordability policy for California higher education. This action was predicated on the fact that student fees are no longer the driving element in whether or not a student can afford to enroll in a public university. Rather, student fee issues have been eclipsed by the need to examine the total cost of attendance. Colleges costs in areas other than fees have far outstripped fee increases, and the focus of state policy makers must shift from cost containment through a patchwork of fee buyouts or reductions to addressing the actual costs that must be financed by students and families.

This change in policy focus recognizes that major shifts in financing higher education have occurred, including:

- **Borrowing** has become the principle mechanism for keeping higher education within the reach of most families, resulting in a substantial increase in levels of indebtedness;
- **Grant aid**, as a percentage of total college costs, has declined to the point that even students with the greatest demonstrated need are expected to assume some level of indebtedness; and
- **Barriers to access** presented by the real cost of attendance remain a problem even at the State's community colleges where the ability of many non-traditional students to attend is exacerbated by their need to work as well as care for families.

Driving this shift in the financial burden for higher education costs in California has been the steady decline in state support for higher education. Overall general fund revenues, as a percentage of total general fund spending, have declined precipitously in the past 20 years. This shortfall has been made up through sharp increases in student fees that have often been financed through increased borrowing.

Even if fee increases had not been driven by budget shortfalls, it is likely that the overall cost of education would have substantially increased the need to borrow.

- In the last ten years, the total cost of attendance has risen significantly. The current estimated cost of attendance per year for CSU ranges from \$14,029 to \$19,624. At UC, the cost of attendance ranges from \$19,596 to \$26,177. For detailed cost information on all of the public university campuses, see Appendix B.
- The greatest expense to students comes in the form of housing costs, which can vary substantially depending on the region of the state where the student attends school. Most college students reside in off-campus housing and their housing options can be very costly, particularly in California's urban areas. For students at some campuses, housing accounts for over 50% of total college expenses, while at other campuses it can account for less than 30%. CSU campuses will show housing costs as a greater percentage than UC, in many cases, because tuition takes up a smaller share of the budget. The most expensive CSU campuses are in San Francisco and

Pomona and the most expensive UC campuses are in San Diego, Los Angeles, and Irvine. The most affordable CSU campuses, with respect to housing costs, are in Fresno, Stanislaus, Bakersfield, and Chico. UC campuses with the most affordable off-campus housing are in Merced and Riverside.

- Over the course of the decade ending in 2003-04, median household income rose 13%. This was more than the fee increases at the state's four-year public institutions, but significantly less than the approximately 20% increase in costs of attendance at the University of California, the California State University, and the independent institutions.

It is unlikely that California will return to a time when state funding can keep pace with enrollment and price increases. Only a major shift in tax and spending policies will alter the proportion of state and federal funding going to higher education. In fact, the state percentage of general fund resources is predicted to decline in every state.

The Role of Need-Based Grant Aid

As the State struggles to direct funding to areas that can have real impact on outcomes, it is important for policy makers to realize that an investment in need-based aid is more effective than previous studies may suggest. All public higher education is heavily subsidized (through direct funding to institutions and student grants), and even private education is subsidized to some degree (through student grants).

The Commission, in adopting its principles for the development of an affordability policy, encourages all efforts to increase the level of need-based state funding for student financial assistance. In the most comprehensive examination of this issue, the California Student Aid Commission (CSAC) and EdFund examined the impact of Cal Grant funding on persistence in higher education in its 2004 report *Determined to Succeed: Realizing the College Dream in California*. The report, which looked at 100,000 applicants for financial aid in 1998, concluded that "...the receipt of a Cal Grant significantly increased a student's likelihood of persisting in school for four years."

Among the findings were:

- Looking at one cohort of Cal Grant recipients who originally entered four-year institutions, 73% were enrolled continuously at those institutions over a four-year period and 85% were still enrolled at some institution;
- More than 96% of Cal Grant A recipients re-enrolled after their first year of study -- the highest rate of any group in the cohort; and
- The most clear-cut finding from the study is that persistence -- the act of re-enrolling in college each year -- is high for Cal Grant recipients. These numbers are significantly greater than persistence for California students generally, regardless of other factors such as family background or prior academic achievement that may influence a student's progress toward educational goals.

Receiving a Cal Grant was found to be significant in determining whether students enrolled immediately in the first year or stayed at the same institution all four years. Investing in need-based grant aid appears to be a cost effective method for increasing access and, just as importantly, for encouraging persistence and completion in California higher education. But the availability of grant aid has been constrained both at the federal and state levels and, coupled with persistently escalating costs, has led to substantial increases in borrowing for both low and middle income families.

The Dynamics of Debt

Who borrows?

In a 2003 study, *Borrowing Trouble: Examining the Indebtedness of College Students in California*, EdFund determined that borrowing to finance higher education in California, with some notable exceptions such as proprietary school borrowing, tends to mirror patterns throughout the nation. Display 1 indicates that the percentage of students who borrow at California's public four-year universities is less than the national average, but the percentage who borrow to attend for-profit institutions is considerably higher.

DISPLAY 1 Distribution of Students and Borrowers in the Nation and California

Segment	Enrollment United States	Borrowers United States	Borrowers California	Sample
Public 4-year	38.3%	46.8%	38.8%	50.0%
Private 4-year	20.7%	30.7%	28.4%	16.6%
Public 2-year	34.2%	9.3%	4.8%	10.9%
Private 2-year	1.6%	0.9%	3.8%	7.5%
Proprietary	5.2%	12.3%	24.2%	15.0%
Total	100.0%	100.0%	100.0%	100.0%

Source: National Center for Education Statistics and Office of Postsecondary Education, U.S. Department of Education and EdFund.

The data indicates that the perceived claim that California remains a "bargain" in higher education is true only to a limited degree. Community college fees are still the lowest in the country, but even at that segment, close to 5% of students borrow money, about half the national average for public two-year colleges. At California's four year institutions, borrowing is beginning to approach the national average.

How much education debt is too much?

As Display 2 indicates, average indebtedness for California graduates has jumped substantially in the period 1995-96 to 2003-04. Moreover, these figures represent only federally guaranteed loans and do not include other forms of debt such as alternative credit-based education loans -- the fastest growing area of student lending.

DISPLAY 2 Average Debt level of California Undergraduates Entering Repayment

	University of CA	California State Univ.	Private Four Year	Voc/Prop	All
1995-96	\$10,763	\$9,503	\$14,578	\$22,602	\$11,352
1996-97	\$11,475	\$10,325	\$16,191	\$24,068	\$12,340
1997-98	\$13,911	\$11,355	\$17,552	\$25,139	\$13,709
1998-99	\$15,167	\$12,462	\$18,139	\$26,081	\$14,761
1999-00	\$15,613	\$12,992	\$19,328	\$29,168	\$15,495
2000-01	\$15,652	\$13,498	\$20,408	\$29,918	\$16,045
2001-02	\$16,516	\$13,933	\$20,977	\$22,960	\$16,766
2002-03	\$16,363	\$13,861	\$21,070	\$22,715	\$16,866
2003-04	\$17,075	\$14,386	\$21,982	\$29,003	\$17,884

Source: EdFund.

Comparable 2003-04 figures for graduate students shown in Display 3 indicate that average debt levels are now at a point that they are having real impact on academic and professional decision making. Debt levels, particularly at the graduate level, are forcing students to make career choices that can effectively preclude lower paying, public service careers.

DISPLAY 3 Average Debt Level of California Graduates Entering Repayment

	University of CA	California State Univ.	Private Four Year	Voc/Prop	All
1995-96	\$19,803	\$13,073	\$25,917	\$25,581	\$22,090
1996-97	\$19,317	\$13,568	\$28,287	\$32,946	\$23,173
1997-98	\$22,699	\$14,934	\$30,282	\$38,221	\$25,667
1998-99	\$24,815	\$17,231	\$31,967	\$46,311	\$28,369
1999-00	\$28,514	\$18,424	\$34,535	\$46,321	\$31,145
2000-01	\$30,740	\$19,532	\$36,700	\$45,575	\$33,393
2001-02	\$32,859	\$21,200	\$38,109	\$44,217	\$34,732
2002-03	\$32,520	\$20,963	\$37,139	\$37,790	\$33,971
2003-04	\$34,284	\$21,634	\$36,670	\$38,227	\$33,886

Source: EdFund.

Although education debt has grown substantially, there is no indication that borrowers are unable to manage current levels. Due to intensive counseling efforts by schools, lenders, and guaranty agencies, overall default rates are, in fact, down.

However, debt levels that are generally based only on subsidized and unsubsidized federally guaranteed loans do not include credit card debt, the use of home equity to finance education, and alternative or credit-based private lending, currently the area of greatest growth.

- The parent loan, or PLUS program, had enormous growth over the period from 1994-95 through 2003-04, posting a 260% increase. The greatest growth was for students attending the CSU, but increasingly, families with students attending other segments are turning to the parent loan program as well.
- Credit card debt was lower for the groups in the more recent year, while guaranteed student loan debts remained high, and other types of debt, mostly installment debt, were significantly higher. This indicates that students are not turning to credit cards but are using other types of debt on top of student loans to fund their college expenses.
- Students who attend half time are in a more precarious financial position with higher debt, higher credit card utilization, and lower incomes than either full-time students or students who were repaying their loans.

What are the Major Risk Factors in Education Debt?

In a 2002 study of student loan default patterns in California, *Clearing Accounts: Causes of Student Loan Default*, EdFund identified some of the major risk factors in borrowing and suggested avenues for mitigating the impact of each.

- **Background factors count** -- Students from low-income families, particularly those with no financial safety net, are more vulnerable. Offering low income students more grant aid to help minimize the need to borrow would help, as would managing the growth of college tuition.

- **Students who drop out of school have heightened risks** – It is not enough to give students access; for a college investment to be sound, students must complete their degrees. Certificate or degree completion rates for higher education are an important statistic to consider. However, without coordination among the systems, completion rates are difficult to track since students move from school to school.
- **Job market success is crucial for loan repayment** -- Unlike grants and other aid, successful borrowing hinges directly upon a satisfactory connection between school and work. The problem isn't how much a student owes, but rather the level of income he or she has when the loan must be repayed. This economic factor means that student financial aid must incorporate the labor market implications of schools and their programs. The key for a student debtor is to obtain a reasonably well-paying job that has prospects for future growth. Some academic programs, particularly those that do not lead to jobs with high enough or steady enough wages, may not be worth borrowing money to attend. Further, since unemployment and low wages strongly predict default, any downturn in the economic cycle might signal an increase in default rates.
- **Loan servicing has a major bearing on default** – Students with many loans and servicers have higher default rates, signaling that there may be advantages in simplifying the repayment process as much as possible. Also, borrower-initiated steps to ease repayment appear to pay off.

The Affordability Panel

In order to assist the Commission in the development of a statewide affordability policy, CPEC staff has assembled three panels for its June 27, 2006, meeting to provide information from a number of perspectives including:

- A summary and analysis of trends in financing higher education, including availability of grant aid, an analysis of who borrows and for what purpose, and forecasts of future trends in financing higher education;
- Perspectives on the impact of borrowing on student choice and opportunity;
- The view of the segments regarding affordability at public and private four-year and two-year California colleges and universities; and
- The view of students and the impact of the total cost of attendance on the experience of undergraduates.

Panelists have been asked to consider the following questions in their presentations to the Commission:

1. What are the principal drivers of the rapid increases in college costs in California?
2. Has higher education at California's four-year public and private institutions become unaffordable for low- and middle-income families?
3. Should there be a freeze on systemwide fee increases at public colleges and universities if sufficient state funding is provided to cover enrollment growth and inflation in California?
4. What steps, including new programs and funding options, can state policy makers take to reduce the financial burden posed by college costs on California students and families?

APPENDIX A



Development of a New Commission Policy on Higher Education Affordability: A Set of Principles

The Commission recognizes that the State has entered a new era of funding for higher education. Student fees have escalated dramatically and the overall cost of attendance, increased levels of debt, and a decline in the buying power of grant aid might be putting higher education beyond the reach of many California families. Therefore, the Commission will develop a financing model for students and families that is based on the concept of overall affordability, rather than on the level of systemwide student charges. In so doing, the Commission has developed a set of principles to guide an “affordability” policy that includes the following elements:

- The State should renew its commitment as articulated in the Master Plan and move toward restoring a higher level of State General Fund support. It should be recognized that large fee increases have generally been a function of diminishing General Fund support.
- Fees should be “frozen” at current-year levels for the next five years, with the State providing the funds that would have been generated by increases in student fees. Such funding is critical to maintaining educational access and quality at the segments
- The Commission has reexamined its policy of “gradual, moderate, and predictable.” It retains the concept that students and families should be able to plan and manage the costs of a higher education, and defines “moderate” as an increase tied to an affordability index that includes indices such as growth in personal income, increases in the consumer price index, or a percentage of the cost of attendance.
- There has been a rapid rise in the level of debt incurred by undergraduate students and their families because of fee increases and the rising costs of going to college, including California’s expensive housing. Financial aid has not kept pace with the rising cost of a higher education. The Commission supports efforts at increasing grant aid through vehicles such as AB 2813.
- The Commission’s affordability policy must recognize the significant “opportunity costs” resulting from rising college expenses. These include, but are not limited to, increases in time to degree, forgone earnings, and the impact on access and college aspirations.
- The Commission reaffirms its prior position that Cal Grants be administered at the campus level. Students would be better served and debt load could be better managed if the State’s Cal Grant programs were decentralized.

Ultimately, the higher cost of education and the lack of sufficient financial aid might present an obstacle for some students who wish to enroll in higher education, an issue that the State must address.

APPENDIX B

CSU	Bakersfield	Channel Islands	Chico	Dominguez Hills	East Bay	Fresno	Fullerton	Humboldt	Long Beach	Los Angeles	Maritime Academy	Monterey Bay
2005 GROSS RENT USING CPI ADJUSTMENT (FOR 9 MONTHS)	\$ 5,571	\$ 8,547	\$ 5,530	\$ 6,705	\$ 8,680	\$ 4,966	\$ 8,809	\$ 5,181	\$ 6,941	\$ 6,368	\$ 7,798	\$ 7,654
TUITION AND FEES	\$ 3,318	\$ 2,980	\$ 3,370	\$ 2,991	\$ 2,916	\$ 2,986	\$ 2,990	\$ 3,167	\$ 2,864	\$ 3,035	\$ 3,446	\$ 2,999
BOOKS AND SUPPLIES (AS ESTIMATED BY UNIVERSITY)	\$ 1,242	\$ 1,240	\$ 1,242	\$ 900	\$ 1,242	\$ 1,240	\$ 1,200	\$ 1,080	\$ 1,242	\$ 1,242	\$ 1,242	\$ 1,242
TRANSPORTATION (AS ESTIMATED BY UNIVERSITY)	\$ 1,116	\$ 990	\$ 750	\$ 1,008	\$ 1,020	\$ 960	\$ 1,116	\$ 1,062	\$ 1,116	\$ 1,041	\$ 1,116	\$ 1,116
FOOD (\$203 per month x 9)	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827
HEALTH EXPENSES (\$39 per month x 9)	\$ 351	\$ 351	\$ 351	\$ 351	\$ 351	\$ 351	\$ 351	\$ 351	\$ 351	\$ 351	\$ 351	\$ 351
MISCELLANEOUS (\$188.82 per month x 9)	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699
TOTAL 9 MONTH CPEC ESTIMATE OF COST OF ATTENDANCE	\$ 15,125	\$ 17,634	\$ 14,770	\$ 15,481	\$ 17,735	\$ 14,029	\$ 17,992	\$ 14,368	\$ 16,041	\$ 15,563	\$ 17,479	\$ 16,888

CSU	Northridge	Pomona	Sacramento	San Bernardino	San Diego	San Francisco	San Jose	San Luis Obispo	San Marcos	Sonoma	Stanislaus
2005 GROSS RENT USING CPI ADJUSTMENT (FOR 9 MONTHS)	\$ 7,605	\$ 10,496	\$ 5,489	\$ 6,908	\$ 6,682	\$ 10,219	\$ 8,875	\$ 6,679	\$ 8,444	\$ 8,495	\$ 5,479
TUITION AND FEES	\$ 3,036	\$ 3,006	\$ 3,072	\$ 3,092	\$ 3,122	\$ 3,128	\$ 3,292	\$ 4,245	\$ 3,062	\$ 3,616	\$ 3,030
BOOKS AND SUPPLIES (AS ESTIMATED BY UNIVERSITY)	\$ 1,242	\$ 1,242	\$ 1,242	\$ 1,242	\$ 1,242	\$ 1,260	\$ 1,242	\$ 1,260	\$ 1,260	\$ 1,242	\$ 1,242
TRANSPORTATION (AS ESTIMATED BY UNIVERSITY)	\$ 1,134	\$ 1,003	\$ 1,116	\$ 1,008	\$ 1,010	\$ 1,134	\$ 1,116	\$ 900	\$ 990	\$ 1,116	\$ 1,008
FOOD (\$203 per month x 9)	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827
HEALTH EXPENSES (\$39 per month x 9)	\$ 351	\$ 351	\$ 351	\$ 351	\$ 351	\$ 351	\$ 351	\$ 351	\$ 351	\$ 351	\$ 351
MISCELLANEOUS (\$188.82 per month x 9)	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699
TOTAL 9 MONTH CPEC ESTIMATE OF COST OF ATTENDANCE	\$ 16,894	\$ 19,625	\$ 14,796	\$ 16,127	\$ 15,933	\$ 19,618	\$ 18,402	\$ 16,962	\$ 17,634	\$ 18,347	\$ 14,636

UC	Berkeley	Davis	Irvine	Los Angeles	Merced	Riverside	San Diego	Santa Barbara	Santa Cruz
2005 GROSS RENT USING CPI ADJUSTMENT (FOR 9 MONTHS)	\$ 7,069	\$ 6,936	\$ 10,755	\$ 11,543	\$ 4,976	\$ 5,546	\$ 12,303	\$ 8,075	\$ 8,177
TUITION AND FEES	\$ 6,512	\$ 7,457	\$ 6,770	\$ 6,504	\$ 6,653	\$ 6,590	\$ 6,685	\$ 6,997	\$ 6,949
BOOKS AND SUPPLIES (AS ESTIMATED BY UNIVERSITY)	\$ 1,266	\$ 1,446	\$ 1,468	\$ 1,554	\$ 1,444	\$ 1,700	\$ 1,504	\$ 1,437	\$ 1,395
TRANSPORTATION (AS ESTIMATED BY UNIVERSITY)	\$ 1,108	\$ 1,407	\$ 1,607	\$ 1,530	\$ 1,922	\$ 2,000	\$ 1,925	\$ 1,404	\$ 1,563
FOOD (\$203 per month x 9)	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827	\$ 1,827
HEALTH EXPENSES (\$26 per month x 9)	\$ 234	\$ 234	\$ 234	\$ 234	\$ 234	\$ 234	\$ 234	\$ 234	\$ 234
MISCELLANEOUS (\$188.82 per month x 9)	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699	\$ 1,699
TOTAL 9 MONTH CPEC ESTIMATE OF COST OF ATTENDANCE	\$ 19,716	\$ 21,006	\$ 24,360	\$ 24,891	\$ 18,755	\$ 19,597	\$ 26,178	\$ 21,673	\$ 21,845

The estimates used are based on off-campus living expenses for a 9-month school year period.

Boxes shadowed on the matrix indicate the following:

- For California Maritime Academy and UC Merced, the median gross rent is for the entire city where the campus is located, not just within the 3-mile radius of the campus.
- UC Irvine does not post estimates for books, supplies, and transportation. Therefore, a UC average cost for these expenses is used.

EXPLANATION OF CAMPUS-SPECIFIC COST EVALUATION

MEDIAN GROSS RENT	Calculated using 2000 Census data. Median prices include the areas within a 3-mile radius of each campus. The Census defines gross rent as “the contract rent plus the estimated average monthly cost of utilities (electricity, gas, water and sewer) and fuels (oil, coal, kerosene, wood, etc.) if these are paid by the renter (or paid for the renter by someone else). Gross rent is intended to eliminate differentials that result from varying practices with respect to the inclusion of utilities and fuels as part of the rental payment. The estimated costs of utilities and fuels are reported on an annual basis but are converted to monthly figures for the tabulations.”
TUITION AND FEES	As specified by each campus.
BOOKS AND SUPPLIES	As estimated by each campus.
TRANSPORTATION	As estimated by each campus.
FOOD	The estimate for food consumed at home is based upon the March 2005 US Department of Agriculture (USDA) Low Cost Food Plan for single adults. Estimated costs of food consumed away from home were calculated using the 2002 Consumer Expenditure Survey (CES) and adjusted for inflation prices using the Consumer Price Index for Food Away from Home. (Obtained from California Budget Project report http://www.cbp.org/2005/0509_mem.pdf .)
HEALTH SERVICES	Based on survey data by the SEARS Data System. Figures differ by system but are not campus specific.
MISCELLANEOUS	The “miscellaneous” category includes expenditures on clothing and services, education, reading, personal care, housekeeping supplies, and basic telephone service; the estimates for telephone service do not include long distance calls. NOTE: The "education and reading" component includes items such as books and newspapers. This is the California Budget Project estimate for single adults (not necessarily students).

